

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 9, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 9, 2006, commencing at 7:03 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock
(arrived at 7:05 a.m.)

Absent: Council Members – None

Also Present: City Manager King, Deputy City Attorney Magdich, and Deputy City Clerk Perrin

B. TOPIC(S)

B-1 "Alternatives to Social Security for part-time, seasonal, and temporary employees"

Deputy City Manager Krueger reported that part-time employees are enrolled in Social Security, which is a defined benefit plan. There are long-term issues associated with the Social Security system as to whether or not there will be adequate funding available upon retirement. Staff recently received a presentation from a bank that offers an alternative plan to Social Security for part-time employees. Presently, the employer's contribution is 6.2% into Social Security. Under this alternative plan, the City could save up to the entire contribution amount.

The Internal Revenue Code allows for governmental agencies to make contributions on behalf of part-time employees into this type of plan, which is categorized as a defined contribution plan. In this type of system, the City of Lodi's only financial obligation is that it make a pre-determined contribution on behalf of the employee. Future costs and employer rates continue to increase in the Public Employees Retirement System (PERS) and Social Security; however, this plan would fix the cost to the employer.

Mr. Krueger provided examples that compared a 1.3% employer contribution savings and a 6.2% savings, explaining that the City can go as little or high, depending on how much savings it would like to generate. Agencies within San Joaquin County and the adjoining area have used this type of plan, and the savings vary (i.e. some have used the entire amount of the Social Security savings from the employer; others have not).

City Manager King added that Social Security requires a total contribution of 12.5%, which is split between the employer and employee. In this proposal, the employee's contribution would remain the same; however, the City could decide how much of the additional employer split it would assume, which is where the City would realize savings.

In response to Council Member Hansen, Mr. Krueger stated that this would apply to all part-time employees, of which there are 334 with a total payroll cost in this current fiscal year of \$1.1 million. Of that amount, the Social Security contribution is \$70,400. Under the alternative plan if the employer made a 1.3% contribution, the City would save \$52,000. Over the course of ten years, the savings would amount to \$568,000. Mr. Krueger demonstrated that the benefit to the employee would be greater net pay, as the employee contribution would be deducted before taxes. If the City chose to realize the full savings (zero contribution), it would save \$70,400 a year, or \$737,000 over the course of ten years, which could be applied toward other elements of the City's finances. In the second scenario, the employee would pay a full contribution of 7.5% and would still benefit with a higher net paycheck.

City Manager King stated that the advantage to the City is that it can choose how much of the 6.2% contribution it wishes to make. The contribution is the employee's money, unlike with Social Security where one must contribute over a specific period of time and receive money based upon a formula. When an employee separates employment, they have the option to roll it over to another qualified retirement plan or take it in a lump sum.

In response to Council Member Hansen, Mr. Krueger replied that this particular plan was not presented to the Lodi Finance/Budget Committee. Mr. Hansen expressed support for the plan, but stated that he does not want to "pull the rug" out from under current part-time employees, particularly those that have worked for the City for many years.

Mr. Krueger clarified that the requirement under Social Security is that one must work 40 quarters of credit before vesting.

Mayor Pro Tempore Johnson stated that a majority of the part-time employees are short-term or seasonal and do not typically go to work for another governmental agency, and the benefit is they vest quicker by working for the City under the Social Security system. On the other hand, there are long-term, part-time employees who would benefit from this type of plan. Mr. Johnson noted that there needs to be a balance in this plan.

City Manager King stated that, before any action is taken, staff would further analyze this, as there are three types of part-time employees: 1) those that have worked for ten years within the Social Security system that are fully vested (this would become an extra benefit); 2) those that currently work for the City who are close to vesting in Social Security; and 3) those seasonal employees at the beginning of their career, who are not concerned with retirement. This program would allow the City to set up rules and define when vesting occurred.

Council Member Hansen stated that 401-K plans have the potential to lose money, depending on how it is invested, to which Mr. King stated that the employer could establish that its contribution would be invested only in a guaranteed investment vehicle, which implies that it will have a rate of return.

Mr. Krueger outlined that Council would need to adopt a resolution and approve a trust agreement and plan document with an institution to implement and administer the plan. Staff would prepare a request for proposals and obtain qualifications from various agents. The plan document would outline the vesting, when one can retire, what happens to the money, how it can be invested, etc. There is a cost associated with administering the fund, and there are several banks that do this type of administration.

City Manager King stated that a guaranteed benefit could include certificates of deposits, items that could be insured, or some stable form of investment tool. There is competition for trust administrators, and the City has been approached by a number of companies. Each one has services it provides to the employer and the employee, and some have a wider range of investment options for the employees. The City is under no obligation to implement this plan as it currently pays into Social Security, which has been incorporated into the budget. This represents an option to reduce costs and still maintain a benefit for the employees.

Mayor Hitchcock requested that Council be provided with the makeup of the 334 part-time employees (i.e. is it mostly seasonal employees, long-time employees, etc.). Social Security was created to assist people with their retirement needs because people were not planning for their future. She expressed concern that, if the City no longer participated in that system and offered an alternative that gave people more flexibility with their money, people may not act responsibly. The guidelines on this are not the same as PERS, which restricts when money can be taken out.

Council Member Beckman supported the concept, but stated that he would like to further explore a 1.3% or 2% City contribution and a secure form of investment for the City's contribution; thereby, allowing the employee to have the option of going with a more risky investment with their contribution.

Council Member Hansen requested that staff explore the possibility of a two-tiered system so that employees hired from this point forward would be on this alternative plan, which would still generate a significant savings to the City.

Mayor Pro Tempore Johnson stated that he does not want the City to get encumbered in investment options for 334 employees and that it instead be the employee's responsibility.

PUBLIC COMMENTS:

- Cory Wadlow, Senior Accountant, clarified that federal law requires the percentage be 7.5%. Ms. Wadlow encouraged Council to ensure part-time employees receive a retirement benefit, whether it be Social Security, PERS, or some other plan, as she recalled the beginning of her career as a part-time employee with the City when she received no retirement benefit at all.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:06 a.m.

ATTEST:

Jennifer M. Perrin
Deputy City Clerk